Capital Bridge
OnTarget
CapitalBridge's monthly newsletter focusing on institutional targeting and investor relations

OnTarget – Trends

Institutions Not Ready to Take AIM

The success of the London Stock Exchange's market for smaller companies, AIM, has been splashed all over the news of late. Much of this coverage was driven by the folks at the LSE, who recently wrapped up an aggressive PR and outreach campaign on U.S. soil. Additionally, TV talking heads and American politicians have also jumped on the AIM bandwagon, emphasizing its success in the new issues market to rail against the regulatory burdens of Sarbanes Oxley. While there is no disputing AIM's recent success, little attention has been paid to what we think is the most critical determinant of AIM's staying power – institutional ownership.

Much of AIM's pitch to prospective corporate companies around the world is the ease of listing on AIM, both from a cost perspective and a bureaucratic perspective. For instance, AIM's Nominated Advisor ("Nomad") system allows a company-appointed advisor to review listing documents instead of Britain's Financial Services Authority (FSA). Additionally, many transactions that would require shareholder approval if a company was listed on the LSE's main exchange can get done without the same approval on AIM. The reduced oversight has clearly been music to the ears of many young, upstart companies. How it plays with the institutional investment community, however, is an entirely different issue.

To get a better idea of institutional acceptance of AIM, CapitalBridge reviewed the level of institutional ownership of AIM stocks in comparison to the ownership of stocks in the Russell 2000, the U.S. benchmark index for small caps. This is a tough comparison for AIM, as the Russell 2000 is a well-established index that has enjoyed a strong run over the past five years, outperforming almost every other U.S. equity index (in 2006, the Russell 2000 was up around 17%). To put the comparison on more of a level playing field, we took a look at the ownership of the 100 largest stocks on AIM. By looking only at the top 100, we are limiting our analysis to the cream of the crop of AIM issues, ignoring the smaller, more speculative companies that would most likely have lower institutional ownership.

AIM 100 v Russell 2000:

	AIM 100	Russell 2000
Avg. Institutional Ownership	38%	67%
Avg. Market Cap	$474 million	$1.2 billion

Institutional ownership as a percentage of shares outstanding for Russell 2000 stocks easily outpaces the level of institutional ownership in AIM 100 stocks. Nevertheless, considering the smaller size of the AIM 100 companies and the challenges (lack of sell-side coverage, liquidity issues, risk) that come along with that small size, the AIM 100's level of institutional ownership is not embarrassingly low. To gain a better understanding of institutional interest, we also took a look at the portfolios of the top 50 investors in U.K. equities. Only 11 of the top 50 investors in U.K. equities had a level weighting or were overweight AIM 100 stocks. For companies that are listed or considering listing on AIM, there will clearly be some significant challenges to the investor relations team in attracting interest from traditional institutional investors. At the outset, it is reasonable to expect your ownership to have a pretty hefty dose of retail investors and hedge funds.

For more on AIM, please send us a quick email at targeting@cap-bridge.com.

Proxy 2007 – Get Out the Vote

European companies' institutional ownership distribution has changed significantly over the last several years, as an increased level of investment from international investors has impacted companies of all sizes. This ownership trend has made European companies more dependent on non-home market investors when it comes time to collect votes at an AGM or EGM. Despite the increased importance of cross-border proxy voting and some recent structural improvements (electronic distribution and voting, more transparent and uniform jurisdictions, etc.), institutions continue to face numerous obstacles when casting their votes. Much to the frustration of IROs and management, who lately have seen their AGM participation reach unacceptable levels, general investor indifference to proxy voting and systemic issues will most likely persist in the near term.

These challenges make it critical for a company to understand the issues it will face as a shareholder meeting approaches. While some of these issues are unique to certain markets, others are universal ones that all companies should consider. First, time is of the essence. The earlier you can distribute a complete meeting agenda and proxy form to your investors, the greater chance you will see participation improve. The most frequent complaint we receive during our work as a proxy solicitor is the short time frame afforded to investors and their agents to review the issues at hand and to cast a vote prior to the cut-off date. To compound the time problem is the lack of resources at many continental European institutions that do not have separate proxy departments and choose not to hire a voting agent (such as ADP or ISS). Many of these institutions will leave proxy voting responsibility with portfolio managers, who simply don't have the bandwidth to handle this added responsibility. Next, despite the rise of shareholder activism, there remain a large number of institutional investors that place little importance on proxy voting. A common refrain we hear from institutions is that the size of their portfolio won't have an impact on the vote results. While this may be true for that particular institution, the cumulative impact of this apathy on your quorum can be material. Another impediment to participation is the legacy of "share blocking" (the practice of forcing an institution to hold its shares on deposit for several days in order to cast its vote). Despite the fact that many companies' bylaws and country-specific jurisdiction no longer call for share blocking, some sub-custodians will keep it in place to ease their administrative burden. A local blocking signal from one sub-custodian can be magnified by the ubiquitous ADP and ISS systems, which will indicate that the meeting is blocked.

The extent of these roadblocks varies from country to country, but nevertheless they exist to a great extent in even the largest and most mature European markets. Although there is no perfect solution, there are steps you can take to improve participation in your meeting:

- Start Early – Do everything you can to get your company to distribute the AGM material as early as possible (lead time of at least four weeks is preferable).
- Hire a Solicitor – Proxy solicitation firms have the ability to reach out and canvass a large number of shareholders, global custodians and proxy advisory firms. While proxy firms can't force an institution to vote, their feedback can be critical to spot problem areas that could hamper vote returns.
- Be Aggressive – Reach out to third party advisory firms (such as ISS and Glass Lewis) to inform them of the meeting and to answer any questions, particularly if you have non-routine items on the agenda. Also, use your local contacts to communicate with the sub-custodians in your country to reinforce the meeting's importance and to make sure they don't indicate share blocking for your meeting.
- IR, IR, IR – If you need to call in a favor from an institution for a vote, you will have a higher chance of success if you have goodwill with the firm built through an active IR program.

For more tips on proxy voting, please contact us at targeting@cap-bridge.com.

OnTarget – Firms

Target Firm: Boston Partners Asset Management

Targeting Profile

Boston Partners is one of a few mid-size managers that can invest a significant amount in equities of any size, making it a worthwhile target for any investor with a solid value story. The vast majority of the firm's assets are managed in separate accounts, with pensions and trusts as the primary clients. A few small mutual fund products are available, but otherwise the investor will deal with mid- to large-size allocations from institutional clients.

How to Approach

The firm's equity investments are split roughly equally across the entire cap range, with large- and giant-cap stock allocations increasing slightly over the most recent quarter. With no specific sector focus, the investor is able to seek relatively cheaply-valued stocks across any industry – lately this has often meant insurance companies (such as Loews, CAN, MGIC, and Ace Ltd.) and telecoms/equipment makers (Vodafone, Nokia, Motorola) that are seeing the low end of their historical valuations but aren't fundamentally "broken" businesses. You'll need to justify not just your future valuation, but also your current undervalued state, in order to attract investment. The firm's analysts are fairly willing to invest in illiquid securities compared to other firms; over 16% of the firm's equity investments are in positions that are greater than 3 days' average daily volume – even if you're facing liquidity problems, you can still receive a significant holding for a fairly long term here.

Average equity holding period: 2.0 years

How Not to Approach

This investor has been known to make significant investment in undervalued stocks. But be careful what you wish for – if your valuation experiences a strong improvement, the firm has no qualms about selling fast and selling big. Holding periods for mid- to large-cap issues with moderate valuations are much longer, however; expect the firm to sell your stock when a target valuation slightly higher than its benchmark is reached. Conversely, don't expect a large investment if you're trading significantly higher than market multiples.

Largest Portfolios Managed

Robeco Boston Partners Small Cap Value II – $373 mm equity – David Dabora / Harry Rosenbluth

Harmony US Equity Pool– $115 mm equity – Robert Jones

Investment Potential

Average holdings for the firm at each market cap range:
Giant-cap: ~$48 mm
Large-cap: ~$30 mm
Mid-cap: ~$18 mm
Small-cap: ~$12 mm
Micro-cap: ~$2 mm

OnTarget – Funds

Target Fund: MFS Research Fund

Managing Firm: MFS Investment Management – Kate Mead et. al. (617-954-4267, kmead@mfs.com)

Targeting Profile

This fund has a fairly unique structure among investment managers – its decision-makers are MFS' sector analysts, instead of a single portfolio manager. Therefore, Kate Mead (above) is only responsible for the execution, balance, and cash management functions of the portfolio, with the investment process held by each sector analysts. The fund is then supposed to represent the "best ideas" of each sector team, with sector weightings tethered to overall market weightings.

How to Approach

Essentially, every holding in this portfolio is already held in another MFS portfolio, but the extra purchasing power in this fund makes it worth gearing your presentation directly to the fund's approach. The fund tends to replace investments in one sector with another in that sector (hence liquidating Kohl's to buy Staples in the retail space, or selling Transocean to buy Noble Drilling in the oil and gas space). By becoming one of the "best sector ideas" in terms of unrecognized growth prospects, you can boost your overall investment by MFS – paint yourself against your sector competition (by looking at the fund's current portfolio) and show your advantages against those investments.

How Not to Approach

Given the structure, pure valuation versus the rest of the equity market isn't going to help much in effectively telling your story. And, if you're being drastically outperformed by your competition on paper (look at the parent company's other holdings in your industry) it's not likely you'll be able to attract this focused an investment; be prepared to answer questions about your competition. The fund also only holds four equities with market caps below $2 billion – as a small cap, it may not be worth adjusting your approach here.

Investment Potential

Average holdings for the firm at each market cap range:
Giant-cap: ~$44 mm
Large-cap: ~$27 mm
Mid-cap: ~$21 mm
Small-cap: ~$15 mm

Average equity holding period: 2.0 years

OnTarget – Contacts

Recent notable contact moves:

Heiko Viet (Portfolio Manager) joined Metzler Investment GmbH in November 2006 as a generalist. He was formerly a portfolio manager at Baden-Württembergische Bank AG.

Patrick Renda (Portfolio Manager) joined Montgomery & Co., LLC in November 2006. Prior to that, he co-founded Conquistador Ventures, LLC in December 2005 where he was a partner, managing member and portfolio manager.

Jeffrey Dorsey (Portfolio Manager) joined Adage Capital Management, LP in November 2006. He was formerly a vice president, portfolio manager and a global industrial analyst at Wellington Management Company, LLP.

Cliff Hoover, Jr. (Managing Director and co-Chief Investment Officer) joined Dreman Value Management, LLC in November 2006. He was formerly a managing director and portfolio manager at NFJ Investment Group.

Magnus Krantz (Portfolio Manager and Senior Analyst) joined RS Investments in November 2006, covering the technology sector. He was formerly a portfolio manager and a senior analyst at Guardian Investor Services Corporation.

Jaime Gualy (Portfolio Manager) joined Carlyle Blue Wave Partners, the hedge fund division of The Carlyle Group in December 2006. He was formerly an equity analyst at Amaranth Securities, LLC.

To keep an eye on other major contact moves, subscribe to CapitalBridge's IRxtras monthly newsletter containing research updates on movements from contacts, firms, and funds. There is no charge for this newsletter. To subscribe, simply email IRxHelp@cap-bridge.com.

OnTarget – Conferences

The conference schedule remains light for the beginning of the new year but look for it to pick up next month.

Conferences – January 2007

Mon	Tues	Wed	Thurs	Fri
1	2	3	4	5
8 Credit Suisse Building Products Conference – NYC JPMorgan 25th Annual Healthcare Conference – San Francisco	9 Raymond James Government Services & Technology Summit – Washington DC Cowen & Company Consumer Conference – NYC Citigroup Auto Conference – Detroit Citigroup Entertainment, Media & Telecoms Conference – Las Vegas Needham & Company 9th Annual Growth Conference – NYC	10	11	12
15	16	17 Goldman Sachs Global Energy Conference – NYC	18 Goldman Sachs Japan Conference – NYC UBS Swiss Alpine Summit – Gstaad	19
22 JPMorgan High Yield Conference – Miami AG Edwards 4th Annual Retailing Technology Conference – Coral Gables	23	24	25	26
29	30 Citigroup Financial Services Conference – NYC	31		

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